Creating Our Future:
Part I – Development of New Content
(Part one of a three part series on driving revenue growth)

By Steve Saferin, president, Scientific Games Ventures

As I think of our industry's future and what will be the key growth drivers over the next decade, I hear the words of Peter Drucker, who once said: *"The best way to predict the future is to create it."*

Our revenue growth over the next decade will happen not because someone inside (or outside) your Lottery is able to foretell your future (thus keeping you from making a perilous strategic error in judgment). Nor will someone create a silver bullet to miraculously double sales.

Rather…revenue growth will happen because we've rolled up our sleeves, proactively exploited the opportunities before us, addressed head-on the difficult challenges and created our future.

We'll do this by maintaining an acute awareness of the emerging macro social and economic issues shaping our world, by having an understanding of the paths our industry has already walked, and then merging this information to arrive at practical business solutions.

There are really three key areas on which lotteries and their vendors will need to focus their energies over the next decade if we are to drive revenue growth: the development of new content; improved and enhanced distribution in the existing brick-and-mortar retail market, and new channels of distribution.

In this first article we will look at the development of new content. This will need to happen for both product lines, but a much more focused effort will need to happen on the online side.

Over the next decade, one of our greatest challenges will be to take the content model that's already accepted and successfully adopted on the instant side and apply it to the online business.

As many of you know, a determined, focused commitment to new instant game content is a path to incremental profit this industry is already walking.

Clearly, the impressive, sustained growth of the instant product can be traced, at least in part, to the successful development of new content, which has allowed lotteries to sell games at higher price-points and attract players that transcend the core base.

In 2005, close to 20 percent of all instant sales in the U.S. will be the result of either third-party licensed brands…or brands developed by the lotteries themselves.

Take Georgia, for example, where the Jumbo Bucks brand of games today sells at between four and five different price points (at any given time)…and accounts for nearly half of the Georgia Lottery's total instant sales.

In Fiscal '01, the Jumbo Bucks brand generated almost $400 million in sales – just under 40 percent of Georgia's total instant sales.

Through the first 33 weeks of fiscal '05, this powerful brand has generated $471 million in sales, or 46 percent of the GLC's total instant sales.

During this four-year period, the Jumbo Bucks brand has helped Georgia climb to number two in weekly per capita sales, at $3.60, behind only Massachusetts.

In Michigan, Wild Times is writing a similar story. This brand first went on sale in Michigan in October 1993. Since that time, the Lottery has launched the game 28 times, including variations – Wild Wild Time and Wild Time Doubler.

The game has always sold at $2. Sales have held steady over the years. The ten-week average is about $800,000 per week.

The 'Wild Time' name has tremendous brand equity in Michigan. Not only was this the first $2 game in Michigan, it was also their first game featuring a top prize of $30,000 (they'd always been lower) and the first game offering ten ways to win. Its theme is universal and its popularity shows no sign of letting up!

In California, The Big Spin game show will mark its 20th anniversary of "reality TV" later this year…

Another example of a successful 'lottery-developed' brand is Ohio's Cash Explosion. Today known as Cash Explosion Double Play, this weekly, 30-minute game show is now in its 18th year and is a Saturday night television fixture in Ohio.

There are plenty of other examples I could cite: Jacks or Better in New Jersey, and watch out for Hold 'Em Poker®, which achieved remarkable indexes in Ohio and Kentucky only to be blown away a couple of weeks ago when it became the best selling instant game of all time in Indiana.

In 2005, Scientific Games will print over $1.2 billion dollars in Hold 'Em Poker® games branded with either the World Poker Tour® or the World Series of Poker®.

With the exception of Monopoly, lotteries have so far generally resisted the notion of selling a specific licensed game year-round, even though there's ample evidence to suggest there's a permanent market for games like Wheel of Fortune, Betty Boop and Harley Davidson.

Online

In the last four fiscal years, total U.S. Instant sales have risen from $16.5 billion to roughly $23 billion in fiscal '04. Branded games have accounted for nearly 40 percent of the growth. It is no coincidence that the slot industry has seen similar growth fueled to an even higher degree by branded content.

Compare the top-line growth of the instant category to what we're seeing for traditional online games. In fiscal '01, total U.S. lottery online sales were $22.1 billion. In '04…$22.2 billion! Virtually no top line growth! In '03, total online sales did spike by roughly 13 percent, but that was attributable to a couple of huge jackpots.

We just completed our semi-annual state-of-the-states survey, which paints a similar and very compelling picture.

It revealed that 86 percent of U.S. lotteries reported an increase in instant sales for the first half of fiscal '05, and more than one-third reported double-digit increases.

It also showed that for every U.S. lottery posting a year-over-year increase in calendar '04 online sales, another lottery was reporting a decline.

If U.S. lotteries are truly committed to growing their traditional online revenues, then the challenge I offer you is one our industry cannot afford to ignore.

In the next decade, branding and content must play a bigger, more important role on the online side of your business.

I'm not suggesting that lotteries and vendors haven't tried to come up with practical inventions to appeal to online consumers. Attempts have certainly been made – some of which have stuck. And I might add this effort has come from some very brilliant minds.

Yet despite this, our industry must do more in the immediate years ahead. To do anything less, I believe, will only give us more of the same: a ticket to flat line growth in a critical product category.

Two questions to consider. Does our industry have any other choice but to cling to the unpredictable coattails of gargantuan jackpots for online revenue growth? And if revenue growth from new content is possible in one product line – and we've certainly proven it with the MDI business model – why is it so painstakingly difficult to achieve in the other product category?

Inside Scientific Games, we're certainly wrestling with these very questions and working overtime to provide solutions that will do for the online category what the industry has successfully done for the instant game.

Let me go beyond the 'theoretical' and offer two specific ways we can immediately begin making this happen.

First, vendors must begin to cooperate with one another to advance the total business goals of our Lottery customers – free from product bias. This, as you know, is not the case today, yet it's an obligation we in the vendor community must meet for revenue growth to happen.

For lotteries, this would be a refreshing change from how it works now…where dual-vendor lottery jurisdictions often find their business goals caught between competing companies fighting for resources that benefit only their respective product category.

For lotteries, these turf wars are inefficient, exasperating and counterproductive.

A vendor community that, once and for all, works together for the full-product spectrum will provide lotteries with the operational and marketing flexibility to capitalize on all profitable opportunities…and will serve their shareholders well.

Compete like hell to win or retain contracts, but once that decision's made, replace competition with cooperation. It's in everyone's best interest.

If the current paradigm doesn't change, then we'd be further ahead to just end this discussion right here. Without cross-vendor cooperation in the next decade, all the time money and resources needed to develop new online content – and new technologies, for that matter – will simply be an exercise in futility and frustration for us all.

There's a second thing that I believe needs to happen in the next decade, which has to do with the way most RFPs are weighted today. The industry's primary emphasis continues to be on receiving the lowest cost possible.

Now please don't misinterpret what I'm saying: while cost should always be an important procurement factor, the disproportionate weighting of its value – particularly in a maturing industry where its operational costs are such a miniscule fraction of its total revenue – will only serve to commoditize the products and services that will surely be needed to keep our industry viable and vibrant.

While the economics of this strategy makes sense in a new or growing market, what happens – as is the case now with online games – when sales flatten or turn south?

If history is a gauge, our industry will look to marketing and the next program to reinvigorate sales. If lotteries are unable to find a solution internally, they will look externally, often to the vendor community.

But what our industry risks finding in this external search – assuming low cost continues to be the primary procurement driver – will be fewer new concepts and fewer innovations.

Vendors will have abandoned their investments in R&D and instead, invested where the industry has told them: in equipment and resources that give them the lowest cost bid, not in the ideas and solutions that generate sales and revenue growth.

Isn't it in our collective, long-term interests to shift the emphasis away from that which produces the least value (purchasing), toward that which produces the greatest vale (selling)?
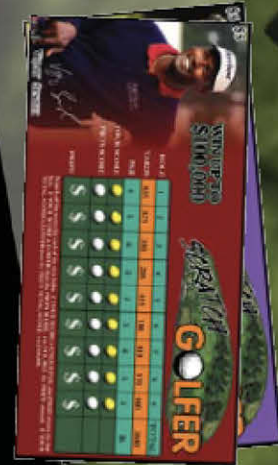
All of this, of course, begs one final, but very important question…and that is: If we go this route, will lotteries compensate vendors for the time, money and resources required to develop new online content, just as they do on the instant side?

Believe me…that's a whole "nuther" topic – one that evokes a very passionate discussion. ◆